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TECHNICAL ASSISTANCE REPORT

STATE DOCUMENTS

WESTERN MONTANA TROUT GROWERS --
PROPOSED COMMERCIAL FISH PROCESSING COOPERATIVE

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Commercial raising of trout in Western Montana has been occuring for a considerable time. It is a natural area for raising trout with substantial supplies of cool clean creek and spring water. The area's wild trout fisheries is infamous throughout the United States. People naturally thought of utilizing some of the water supply to grow trout for home use, for the kids and friends to catch, and to provide a few to grocery stores for retail sale. The industry has not grown appreciably due to the lack of a large scale processor to clean, package and sell the fish. There is a small processor in the Flathead area and Rainbow Trout Products processors in Livingston; but they are either not meeting the local needs or located a prohibitive distance from the area's trout farms. People have, for a long time, considered the possibility of creating their own processing plant.

On December 20, 1976, approximately 22 prospective members of a processing cooperative gathered to pursue the idea of building a plant. Folks from the Flathead Valley, Heron, Rock Creek, the Bitterroot Valley, and Kalispell came, along with members of the Technical Assistance Program of the Department of Natural Resources and Conservation. This meeting was the culmination of hours of discussion of development of the trout industry in Western Montana. As a result, the Western Montana Trout Growers Association was formed. The Cooperative is comprised of people in the trout business, growers, sellers, and hatchery folks, who will market their fish through the Cooperative processing plant. The Technical Assistance Program of the Department of Natural Resources and

Conservation was contacted to assist in doing prefeasibility analysis and assist in securing a Small Business Administration loan. This report outlines the economics of Western Montana Trout Growers organization, processing plant, and operational budgets for the first years of operation.

ORGANIZATION

It was decided to form a Local Development Company, through the Small Business Administration, for two reasons. First, low interest funds are available through Section 502 loans from the Small Business Administration. Secondly, the Local Development Company can be used for funding other projects that might show potential in the western Montana area. The development Company will be the structure to establish the processing plant, handle the capital stock, Small Business Administration funds and local bank loan funds for the project.

Under Small Business Administration criteria, there must be a minimum of 25 members in the local development corporation, plus the involvement of a local bank to provide partial funding, and to service the loans. Lake County Bank has been approached by the Cooperative and will be working with the Small Business Administration in financing the processing plant and initial operating capital, totalling $56,000 to be supplied as follows:

$34,000 Small Business Administration loan;

$12,000 local bank loan; and

$10,000 capital stock.

PROCESSING PLANT AND PROCESS

The processing plant will be located on 15 acres, 1.5 miles north of the Jocko River on the eastside of Highway 93. This parcel will cost $15,000, to be purchased with Small Business Administration and local bank funds. The site was chosen due to its proximity to a major transportation route and the availability of adequate ground water supplies. A 40 by 60 foot steel building is to house the processing plant, and will cost approximately $14,000. The building is large enough to accomodate growth internally with additional freezers or externally through expandable end walls (see attached diagram). Water supply will be provided by a well, with a drainage system installed to handle processing plant waste. Initially, a 10 by 12 by 8 foot walk-in freezer will be installed, capable of housing 15,000 pounds of frozen fish. A heat pump system will be installed with solar collectors used to heat water necessary for the extensive cleaning process . Additionally, processing equipment will be installed. (A specific breakdown of which is included in Appendix A.)

Externally, there will be a 18 by 24 foot wood and steel storage shed which will be used to store trout feed. Grower members of the Cooperative will be able to buy trout food in bulk quantities, store it at the processing plant, and pick it up when needed. This will provide a cost savings of several dollars per hundred weight, with the feed purchases seperate from the economics of the processing plant. Additionally there will be a 40 by 8 foot holding pond next to the plant for short term storing of trout prior to processing.

Initially, members of the Cooperative will do transportation and processing of fish, although in the second or third years the operation will be large enough to keep a full time processing system in operation. Employees will be needed to clean, wash, sort, bone and package fish, which according to projections should supply seven to eight full time jobs by 1980. In 1978, a part time bookkeeper/secretary will be hired along with a full time manager. The manager will coordinate processing of fish and will be responsible for working with brokers to haul and sell the fresh or frozen fish. He or she will work closely with suppliers to insure a steady flow of fish to the plant and on the destination markets. Contracts will be with established brokers to sell processed fish, with hauling to be done by truck or rail. At some point it might be feasible to finance and run Cooperative owned trucks to final markets, but that decision will have to be made later. Considerable interest has been expressed from brokers regarding the sales of fresh and frozen Western Montana trout.

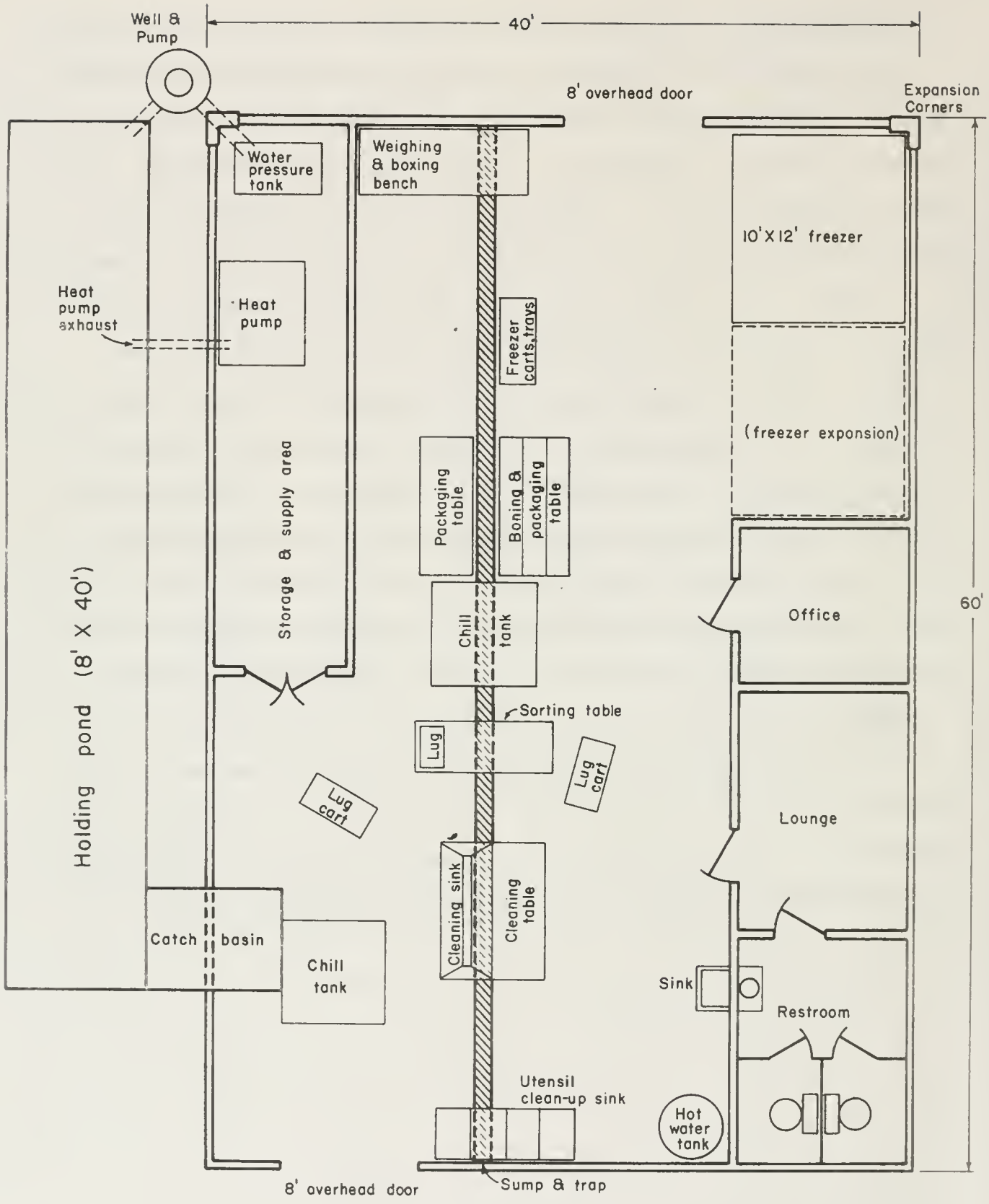
OPERATIONAL BUDGETS

The budgets are based upon 31,250 pounds of fish processed the first year, 187,500 pounds the second year and 312,500 pounds the third year, with 25,000 pounds, 150,000 pounds and 250,000 pounds of fish sold each year respectively. Labor times were used as follows: 100 pounds of fish can be cleaned per hour, 200 pounds of fish can be washed per hour, 60 pounds of fish can be boned per hour, 200 pounds of fish can be sorted per hour, and 150 pounds of fish can be packaged per hour. Insurance was for $300,000/$500,000 liability and for $50,000 property. The second year budget includes

the purchase of a two ton truck to transport fish from the raceways to the Cooperative. Operating capital is included for all three years, although years two and three will probably not require the amounts projected, depending on cash flows, loan repayments, and funds retained in the cooperative operation. Third year budget includes additional freezer space with the purchase of a freezer.

Several final notes are that revenue was assumed to be from frozen, boxed fish; if fresh fish are sold, then the cost and revenue schedules will have to be adjusted accordingly. The deposition of projects will be decided by the Board of Directors in the respective time periods of consideration. Expenses were adjusted by 10% in year three, except for the price paid for fresh fish which went from 70¢ per pound to 75¢ per pound (7.1%). Also, the income from boned/frozen fish was increased from $1.75 per pound in 1977 to $1.80 per pound in 1978 to $1.85 per pound in 1979.

The first year is projected to have a loss of slightly over $2,000, due to setting up of the operation and low volume. The second and third years show net income of $31,985.86 and $47,640.14 respectively, following full operation of the Cooperative.



PROCESSING PLANT

First Year Budget -- 1977

Expenses	
SBA Payment ($34,000, 15 year loan @ 6 5/8%)	$ 3,645.31
Local Bank Payment ($12,000, 15 year loan @ 8½%)	1,445.16
Insurance (without truck)	960.00
Taxes (property)	500.00
Labor @ $3.00/hr. @ 1,354 hours	4,062.00
Utilities (heat and light)	600.00
Fish Costs (31,250#'s @ 70¢/#)	21,875.00
Packaging Costs	1,195.70
FICA & Unemployment (5.85% & 3.1% resp. on $4,062)	363.55
Phone ($12.00/month base)	600.00
Interest on Operating Capital($20,000 borrowed @ 10%)	2,000.00
Broker Costs (10¢/#)	2,500.00
Shipping Costs (10¢/#)	2,500.00
Legal Fees	1,500.00
Secretarial & Bookkeeping (set up books)	2,000.00
Miscellaneous	1,000.00
TOTAL EXPENSES	$ 45,846.72
Revenue	
25,000#'s Boned/Frozen Fish @ $1.75/#	$ 43,750.00
Net Income	($ 2,096.72)
Less Depreciation (building and equipment)	3,700.00
	($ 5,796.72)
Less Taxes (income)	-0-
NET LOSS	$ 5,796.72

Second Year Budget -- 1978

Expenses	
SBA Payment	$ 3,645.31
Local Bank Payment	1,445.16
Insurance (without truck)	960.00
Taxes (property)	500.00
Labor @ $4.00/hr. @ 8,126 hrs.	32,504.00
Manager Salary	12,000.00
Utilities (heat and light)	600.00
Fish Costs (187,500#'s @ 70¢)	131,250.00
Packaging Costs	7,200.00
FICA & Unemployment (5.85% & 3.1% Resp. on $32,504 wages and managers salary)	3,759.91
Phone	600.00
Interest on Operating Capital ($50,000 @ 10%)	5,000.00
Truck Payment ($10,000 @ 10% for 5 years)	2,549.76
Truck Insurance	1,000.00
Shipping Costs (10¢/#)	15,000.00
Broker Costs (10¢/#)	15,000.00
Truck Operation	500.00
Secretary and Bookkeeping	3,500.00
Miscellaneous	1,000.00
TOTAL EXPENSES	$ 238,014.14
Revenue	
150,000#'s Boned/Frozen Fish 2 $1.80/#	$ 270,000.00
Net Income	$ 31,985.86
Less Depreciation (building, equipment, truck)	5,700.00
	$ 26,285.86
Less 1977 Loss	5,796.72
	$ 20,489.14
Less Taxes (income)	$ 5,890.63
NET PROFIT	$ 14,598.51

Third Year Budget* -- 1979

Expenses	
SBA	$ 3,645.31
Local Bank Payment	1,445.16
Insurance (without truck)	1,056.00
Taxes	550.00
Labor @ $5.00/hr. @ 13,543 hrs.	67,715.00
Managers Salary	12,000.00
Utilities (heat and light)	660.00
Fish Costs (312,500#'s @ 75¢/#)	234,375.00
Packaging Costs	12,500.00
FICA & Unemployment (5.85% & 3.1% resp. on $67,715 wages and Managers salary)	5,853.63
Phone	660.00
Interest on Operating Capital (50,000 @ 10%)	5,000.00
Truck Payment	2,549.76
Truck Insurance	1,100.00
Shipping Costs (12¢/#)	30,000.00
Broker Costs (10¢/#)	25,000.00
Truck Operation	550.00
Freezer Purchase	4,000.00
Secretary & Bookkeeping	5,000.00
Miscellaneous	1,200.00
	$ 414,869.86
Revenue	
250,000#'s Boned/Frozen Fish @ $1.85/#	$ 462,500.00
Net Income	47,640.14
Less Depreciation	6,100.00
	$ 41,540.14
Less Taxes (income)	$ 16,243.23
NET PROFIT	$ 25,296.91

* Note: Variable expenses increased by 10%

APPENDIX A -- CAPITAL INVESTMENTS

Building cost (structure)	$ 14,000	
Storage shed	3,500	
Lighting and plumbing	4,000	
Building capital cost		$ 21,500
Well	$ 1,500	
Solar hot water system	2,000	
Pump	334	
Septic tank	300	
Drain field	200	
Holding pond (50'X8')	1,100	
Back hoe	100	
Water and Sewage Capital Cost		$ 5,534
Freezer	$ 3,784	
Chill tank	200	
Stainless steel cleaning table 24'x8'	194	
Stainless steel bowls (4)	63	
Three compartment sink	460	
Single-line dollies (4)	160	
Ten gallon drums (3)	30	
Hamburger lugs	180	
Stainless steel sorting table 3'x8'	258	
Boning table 4'x8'	323	
Stainless steel packaging table 3'x8'	258	
Bag sealer (2)	60	
Freezer carts (4)	400	
12"x30"x1" trays (60)	300	
Hand wash sink	175	

Chill tank with compressor	$ 700	
Ice Machine (235#'s/hr.)	500	
Harvest Nets	500	
Control scales (2)	80	
Utensil wash sink	587	
Desk and chair	240	
File drawer and safe	105	
Fire extinguisher	65	
Toilets (2)	120	
Sink	40	
Soap Dispensers (3)	15	
Hot water tank (62 gallon)	160	
Pressure tank (80 gallon)	170	
Heat pump	1,500	
Ventilators (3)	80	
Aprons (20)	40	
Dunkboards (7)	103	
Knives (6)	27	
Packaging machine	1,500	
Equipment capital cost		$ 13,377
Land purchase		$ 15,000
TOTAL		$ 55,411

ACKNOWLEDGMENTS

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